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NOTES ON
Poor Charlie's Almanack
by Charlie Munger
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Cover → Chapter One

Values for which Charlie has become known:

- Lifelong learning
- Intellectual curiosity
- Sobriety
- Avoidance of envy and resentment
- Reliability
- Learning from the mistakes of others
- Perseverance
- Objectivity
- Willingness to test one's own beliefs
- Any many more...

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time — none, zero. You'd be amazed at how much Warren reads — and at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." — Charlie Munger

Charlie was a voracious reader, even in his younger years.

"I had a brief immersion in elementary physics, prompted entirely by the unusual incentives provided by WWII. This immersion greatly improved my wisdom. What

occurred as that I was given more models, so I was less like 'that an with a hammer'" — Charlie Munger

Munger majored in mathematics for its logic and reason. He liked physics for its method of solving problems. He considers it helpful in framing the problems of life.

"He has often stated that anyone who wants to be successful should study physics because it concepts and formulas so beautifully demonstrates the power of sound theory."

When Warren Buffett was asked other character traits contributed to the success of Munger (other than being rational), he answered honesty, integrity, and always doing more than his share and not complaining about the other person does.

"That sounds funny, making friends among 'the eminent dead,' but if you go through life making friends with the eminent dead who had the right ideas, I think it will work better for you in life and work better in education. It's way better than just giving the basic concepts."

"Cicero, learned man that he was, believed in self-improvement so long as breath lasts"

Chapter Two — The Munger Approach to Life, Learning, and Decision Making

"Take a simple idea and take it seriously" — Munger

This chapter is not a 'how to'. Munger's approach is too complex. It's more of a 'this is how he seems to do it'. Learn from it what you can.

Munger's "Multiple Mental Models" Approach to Business Analysis and Assessment

"You must know the big ideas in the big disciplines and use the routinely — all of them, not just a few. Most people are trained in one model — economics, for

example — and try to solve all problems in one way. You know the old saying: 'To the man with a hammer, the world looks like a nail.' This is a dumb way of handling problems."

His mental models borrow from and neatly stitch together the analytical tools, methods, and formulas from disciplines such as history, psychology, physiology, mathematics, engineering, biology, physics, chemistry, statistics, economics, and so on.

"Just as multiple factors shape almost every system, multiple models from a variety of disciplines, applied with fluency, are needed to understand that system."

"Faced with the choice between changing one's mind and proving there is no need to do so, almost everyone gets busy on the proof." — John Kenneth Galbraith

Charlie almost has an eagerness to identify and acknowledge his own mistakes and learn from them. He goes as far as to say that if you don't kill one of your 'best-loved ideas' one year, then that year is probably wasted.

Charlie sees one's ideas and approaches as tools. When a better one comes along, you should switch the old one for it.

Some of his mental models:

- Redundancy/backup system model from engineering
- Compound interest model from mathematics
- The breakpoint/tipping-moment/autocatalysis models from physics and chemistry
- The modern Darwinian synthesis model from biology
- The cognitive misjudgment models from psychology

He estimates that he has around 100 of them.

One should do what they can to learn as many mental models that they can. Even if your professors will not teach you.

"There is no better teacher than history in determining the future... There are answers worth billions of dollars in a \$30 history book" — Paul Johnson

"Charlie counts preparation, patience, discipline, and objectivity among his most fundamental guiding principles." — and he sticks to these. No matter what.

"Perhaps the most valuable result of all education is the ability to make yourself do the thing you have to do, when it ought to be done, whether you like it or not. It is the first lesson that ought to be learned and however early a man's training begins, it is probably the last lesson that he learns thoroughly" — Thomas Henry Huxley.

"I'm afraid that's the way it is. If there are twenty factors and they interact some, you'll just have to learn to handle it — because that's the way the world is. But you won't find it that hard if you go at it Darwin-like, step by step with curious persistence. You'll be amazed at how good you can get." — Munger

Munger believes that a successful investment career boils down to only a handful of decisions. He does not often buy and sell. He calls this "sit on your ass investing".

He trusts his own opinions over those of the herd.

"It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities." — Munger

Charlie often focuses on what **not** to do — what to avoid.

He strives to reduce complex situations to their most basic, unemotional fundamentals. But careful to avoid the need to reduce all complex systems to one-size-fits-all formulas.

Munger's Investment Evaluation Process

"If we have a strength, it is in recognizing when we are operating well within our circle of competence and when we are approaching the perimeter" — Warren Buffett

"If you have competence, you pretty much know its boundaries already. To ask the question [of whether you are past the boundary] is to answer it." — Munger

"I'm no genius. I'm smart in spots, and I tend to stay around those spots." Thomas Watson Sr.

"You are neither right or wrong because the crowds disagrees with you. You are right because your data and reasoning are right." — Benjamin Graham

"The most difficult thing in business is first getting yourself to thinking and then getting others to thinking." — Harvey Firestone

"Apply logic to help avoid fooling yourself. Charlie will not accept anything I say just because I say it, although most of the world will." — Warren Buffett

"Never fool yourself, and remember that you are the easiest person to fool." — Richard P. Feynman

A famous viewpoint of Charlie's: *"a great business at a fair price is superior to a fair business at a great price."* Compare value (what you get) with price (what you pay). It is also the first of **Munger's Three Great Lessons of Investing**:

1. *"A great business at a fair price is superior to a fair business at a great price."*
2. *"A great business at a fair price is superior to a fair business at a great price."*
3. *"A great business at a fair price is superior to a fair business at a great price."*

Have a passionate interest in why things are happening. This improves your focus on reality.

You have to keep a broad perspective. Your work won't be as good as it could be otherwise. You can get this from books or people. Preferably both. Paraphrasing Harvey Firestone.

"In investing, just as in baseball, to put runs on the scoreboard, one must watch the playing field, not the scoreboard." — Warren Buffett

"The right way to think is the way Zeckhauser plays bridge. It's just that simple." And Zeckhauser does not score himself on whether he won the hand. but rather on how

well he played it.

"While poor outcomes are excusable in the Munger/Buffett world — given the fact that some outcomes are outside of their control — sloppy preparation and decision making are never excusable because they ARE controllable."

Charlie says he practices "extreme patience combined with extreme decisiveness".

"All intelligent investing is value investing — acquiring more than you are paying for. You must value the business in order to value the stock."

"People always want a formula — but it doesn't work that way. You have to estimate total cash generated from now to eternity, and discount it back to today. Yardsticks such as P/Es are not enough by themselves." — Buffett

"You need a different checklist and different mental models for different companies. I can never make it easy by saying, 'Here are three things.' You have to derive it yourself to ingrain it in your head for the rest of your life." — Munger

An Investing Principles Checklist

"No wise pilot, no matter how great his talent and experience, fails to use his checklist."

This chapter recaps Charlie's approach to thinking in general and investing in particular using the checklist methodology.

But it is not something employed by Charlie in a one-by-one or one-time fashion as it might imply.

Compound Interest

"... 'tis the stone that will turn all your lead into gold. Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more." — Benjamin Franklin

"Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things."

The Checklist

I will not be copying down the whole list, mark for mark. But the general themes:

- **Risk** — “All investment evaluations should begin by measuring risk, especially reputational”
- **Independence** — “Only in fairy tales are emperors told they are naked”
 - *“Mimicking the herd invites regression to the mean”*
- **Preparation** — “The only way to win is to work, work, work, work, and hope to have a few insights”
 - Become a lifelong learning through voracious reading. Be curious and try to become a little wiser every day.
 - Always ask “why?”
- **Intellectual humility** — “Acknowledging what you don’t know is the dawning of wisdom”
 - *“Stay within a well-defined circle of competence”*
- **Analytic rigor** — “Use of the scientific method and effective checklists minimizes errors and omissions”
 - “Think forwards and backwards — Invert, always invert”
- **Allocation** — “Proper allocation of capital is an investor’s number one job”
 - Don’t fall in love with an investment.
- **Patience** — “Resist the natural human bias to act”
 - “‘Compound interest is the eighth wonder of the world’ (Einstein); never interrupt it unnecessarily”
 - Avoid unnecessary transactional taxes and frictional costs
- **Decisiveness** — “When proper circumstances present themselves, act with decisiveness and conviction”
 - “Be fearful when others are greedy, and greedy when others are fearful”
- **Change** — “Live with change and accept unremovable complexity”
 - “Recognize and adapt to the true nature of the world around you; don’t expect it to adapt to you”
 - Challenge, and if necessary, change, your ‘best loved ideas’.
 - “Recognize reality even when you don’t like it — especially when you don’t like it”
- **Focus** — “Keep things simple and remember what you set out to do”

- “Remember that reputation and integrity are your most valuable assets — and can be lost in a heartbeat”
- “Don’t overlook the obvious by drowning in minutiae”
- “Face your big troubles, don’t sweep them under the rug”

Honesty Is the Best Policy

“Doing the right thing can pay big dividends both personally and professionally”
— Munger

“I think track records are very important. If you start early trying to have a perfect one in some simple things like honesty, you’re well on your way to success in this world.” — Charles T. Munger

Chapter Three — Mungerisms: Charlie Unscripted

Highlights from Recent Berkshire Hathaway and Wesco Financial Annual Meetings

“I have been associated for many years with a man legendary for good judgement, and it never ceases to amaze me to see how much territory can be grasped if one merely masters and consistently uses all the obvious and easily learned principles.” — Munger

“We try more to profit from always remembering the obvious than from grasping the esoteric. It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”

Louis Vincenti’s rule: Tell the truth, and you won’t have to remember your lies.

Thinking that people can predict the future is crazy. Yet we pay for forecasts.

Critique of Accountants

“Once you start doing something bad, then it’s easy to take the next step — and in the end, you’re a moral sewer”.

“How many legs does a dog have if you call the tail a leg? Four. Calling a tail a leg doesn’t make it a leg.” — Abraham Lincoln

Mental Models

“You must know the big ideas in the big disciplines and use them routinely — all of them, not just a few. Most people are trained in one model — economics, for example — and try to solve all problems in one way. You know the old saying: To the man with a hammer, the world looks like a nail. This is a dumb way of handling problems.”

You have to learn the models well enough to apply them. To reason through them yourself. Not just learn and forget. And you can learn as you go too. You can learn a lot now, and then even more later.

The Ethos of Not Fooling Yourself

You have to be able to let go of failed ideas.

How to Be Happy, Get Rich, and Other Advice

Tips on How to Be Happy and Successful

Only succeeding in acquiring wealth is a failed life. Life is much more than that.

You want to know what to avoid — that helps in life & business: early death, a bad marriage, etc.

“Just avoid things like AIDS situations, racing trains to the crossing, and doing cocaine. Develop good mental habits.”

“If your new behavior earns you a little temporary unpopularity with your peer group, then the hell with them.”

“Be satisfied with what you have” — if you’re rich, and someone is getting richer faster than you doing risky things, then so what? Someone will always be getting richer faster than you.

Avoid envy. It’s stupid and no fun.

How to Get Rich

“Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts... Slug it out one inch at a time, day by day. At the end of the day — if you live long enough — most people get what they deserve.”

How to Find a Good Spouse

Deserve one.

The Importance of Reading

“In my whole life, I have known no wise people (over a broad subject matter area) who didn’t read all the time — none, zero. You’d be amazed at how much Warren reads — and at how much I read.”

Munger likes biographies. It helps tying the great concepts that work to those who developed them — their personalities and lives.

If you want to learn economics, you’d want to be friends with Adam Smith.

“That sounds funny, making friends among the eminent dead, but if you go through life making friends with the eminent dead who had the right ideas, I think it will work better in life and work better in education. It’s way better than just being given the basic concepts.”

Reduce Material Needs

You don’t really need all that much.

Avoid Debt

It's hell to get out of.

Chapter Four — Eleven Talks

1. Harvard School Commencement Speech

Deciding to expand upon Johnny Carson's speech.

Carson on How to be miserable:

1. Ingesting chemicals in an effort to alter mood or perception;
2. Envy; and
3. Resentment

"While susceptibility varies, addiction can happen to any one of us through a subtle process where the bonds of degradation are too light to be felt until they are too strong to be broken."

And four prescriptions on how to be miserable, by Munger:

1. Be unreliable

"Do not faithfully do what you have engaged to do. If you will only master this one habit, you will more than counterbalance the combined effect of all your virtues, howsoever great. If you like being distrusted and excluded from the best human contribution and company, this prescription is for you. Master this one habit, and you will always play the role of the hare in the fable, except that instead of being outrun by one fine turtle, you will be outrun by hordes and hordes of mediocre turtles and even some mediocre turtles on crutches.

I must warn you that if you don't follow my prescription, it may be hard for you to end up miserable even if you start disadvantages. I had a roommate in college who was and is severely dyslexic. But he is perhaps the most reliable man I have ever known. He has had a wonderful life so far, outstanding wife and children, chief executive of a multibillion dollar corporation. If you want to avoid a conventional, main-culture, establishment result of this kind, you simply can't count on your other handicaps to hold you back if you persist in being reliable."

2. Learn from your own experiences, and never from the experiences of others. This is a sure shot producer of misery and second-rate achievement.

And do not learn from the best work done before yours. Try to become as non-educated as you reasonably can.

3. Go down and stay down when you get your first, second, or third severe reverse in the battle of life.

"There's so much adversity out there, even for the lucky and wise, this will guarantee that, in due course, you will be permanently mired in misery."

4. "is to ignore a story they told me when I was very young about a rustic who said, 'I wish I knew where I was going to die, and then I'd never go there.' Most people smile (as you did) at the rustic's ignorance and ignore his basic wisdom. If my experience is any guide, the rustic's approach is to be avoided at all cost by someone bent on misery. To help fail, you should discount a mere quirk, with no useful message, the method of the rustic, which is the same one sued in Carson's speech."

Many hard problems are best solved when addressed backwards. Jacobi: "Invert, always invert."

"Einstein said that his successful theories came from 'Curiosity, concentration, perseverance, and self-criticism.' And by self-criticism, he meant the testing and destruction of his own well-loved ideas."

Talk One Revisited

He wouldn't change a single idea.

Charlie was a fan of the poem "If," by Rudyard Kipling. Here it is. Source:

<https://www.poetryfoundation.org/poems/46473/if--->

*If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting,
Or being lied about, don't deal in lies,*

*Or being hated, don't give way to hating,
And yet don't look too good, nor talk too wise:*

*If you can dream—and not make dreams your master;
If you can think—and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to, broken,
And stoop and build 'em up with worn-out tools:*

*If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!'*

*If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch,
If neither foes nor loving friends can hurt you,
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And—which is more—you'll be a Man, my son!*

2. A Lesson on Elementary, Worldly Wisdom as It Relates to Investment Management and Business

“What is elementary, worldly wisdom? Well, the first rule is that you can't really know anything if you just remember isolated facts and try and bang 'em back. If the facts don't hang together on a latticework of theory, you don't have them in a usable form.

You've got to have models in your head. And you've got to array your experience — both vicarious and direct — on this latticework of models. You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and fail in life. You've got to hang experience on a latticework of models in your head."

You have to have multiple models. One or two is not enough. If you only have so few, "you'll torture reality so that it fits your model, or at least you'll think it does."

"To the man with only a hammer, every problem looks like a nail."

Your models have to come from multiple disciplines. All the wisdom of the world is not found in one little academic department.

This may seem tough, but about eighty or ninety important models will carry about ninety percent of the freight in making you a worldly-wise person. And from those, only a mere handful really carry very heavy freight. (remember 80/20?)

So which models should you acquire (to become good at stock-picking)?

- Mathematics. You have to be able to handle numbers and quantities — basic arithmetic.
 - "The great useful model, after compound interest, is the elementary math of **permutations and combinations.**" (learn probability theory)
- Accounting. Know enough to understand its limitations.
- Psychology
 - It's immensely important to always answer 'why?'. Why?
 - "Just as you think better if you array knowledge on a bunch of models that are basically answers to the question, why, why, why, if you always tell people why, they'll understand it better, they'll consider it more important, and they'll be more likely to comply. Even if they don't understand your reason, they'll be more likely to comply.

The most reliable models are those that come from hard science and engineering. Quality control from engineering, for example, is also very important.

Statistics are also good to know. But you don't have to know it perfectly.

The engineering idea of a backup system is great. Same for breakpoints. And from physics: critical mass.

The next most reliable models are from biology/physiology — we're all genetically similar.

Psychology is incredibly important if you are going to have any worldly wisdom. Why?

Because we take mental shortcuts. "So someone who knows how to take advantage of those shortcuts and cause the brain to miscalculate in certain ways can cause you to see things that aren't there." (take a look at the book ['Influence'](#))

It's important to know your own mental limits (know the shortcuts, so you won't be fooled as easily), and to know the limits of others.

And an elementary part of psychology (what Munger calls 'The Psychology of Misjudgment') is important to learn. There are about 20 little principles, which interact with each other.

From editor of the book: study James J. Hill, Andrew Carnegie, Harvey Firestone, and Les Schwab. "They're among the best self-made operators who can be studied by young businesspeople"

Two-track analysis:

"First, what are the factors that really govern the interests involved, rationally considered? And second, what are the subconscious influences where the brain at a subconscious level is automatically doing these things — which, by and large, are useful but which often malfunction?"

Microeconomics

This is somewhat less reliable form of human wisdom. It's useful to think of a free market economy (or partially free) as sort of the equivalent of an ecosystem.

"Just as in an ecosystem, people who narrowly specialize can get terribly good at occupying some little niche. Just as animals flourish in niches, similarly, people who specialize in the business world — and get very good because they specialize — frequently find good economics that they wouldn't get any other way."

Off-topic: Wisdom from Jack Welsh

"Before you are a leader, success is all about growing yourself. When you become a leader, success is all about growing others."

"What you measure is what you get. What you reward is what you get."

"The consistent lesson I've learned over the years is that I have been in many cases too cautious. Almost everything should have been done faster."

"Give a project visibility. Put great people on it and give them plenty of money. This continues to be the best formula for success."

"Finding great people happens in all kinds of ways, and I've always believed, 'Everyone you meet is another interview.'"

"A cardinal rule of business: never allow anyone to get between you and your customers or suppliers. Those relationships take too long to develop and are too valuable to lose."

"Don't kid yourself. It is the way it is."

Important concept: advantages of scale.

A commonly taught advantage of scale is "reductions along the so-called experience curve." Basically: "the very nature of things is that if you get a whole lot of volume through your operation, you get better at processing that volume. That's an enormous advantage."

A few advantages of scale

- Informational advantage — if people are exposed to your ads, they 'know' you. They're more likely to pick you over something they don't know.
- Social proof — "Everyone buys this, so it must be better."
- Cascade to a winner-take-all

There are, of course, also disadvantages.

Important concept from psychology: Pavlovian association.

"If people tell you what you really don't want to hear — what's unpleasant — there's an almost automatic reaction of antipathy." It doesn't have to be that way, and you can train your way out of it. But you'll think that way if you don't think about it. But if you don't, people will learn not to tell you those things. And then you'll be living in a bubble on unreality.

Figure out which aptitudes you have and don't have. Because if you play games where other people have aptitudes that you lack, you'll lose. Figure out where you have an edge. And play within your own circle of competence.

Picking stocks

"By definition, everybody can't beat the market."

Munger likes a model for what goes on in a market: the parimutuel system at the race track.

"The one thing all those winning bettors in the whole history of people who've beaten the parimutuel system have is quite simple: they bet very seldom."

"It's not given to human beings to have such talent that they can just know everything all the time. But it is given to human beings who work hard at it — who look and sift the world for a mispriced bet — that they can occasionally find one.

And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple."

"The way to win is to work, work, work, work, and hope to have a few insights."

You don't need many insights in a lifetime.

Warren, when giving lectures at business schools, says: "I could improve your ultimate financial welfare by giving you a ticket with only twenty slots in it so that you had twenty punches — representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all. ...Under those rules, you'd really think carefully about what you did, and you'd be forced to load up on what you'd really thought about. So you'd do so much better."

“As usual in human affairs, what determines the behavior are incentives for the decision maker, and ‘getting the incentives right’ is a very, very important lesson.”

Value investing is a good way to think. Calculate what a business is worth, and then calculate its current price. Do they match? If the current price is lower than the value; buy. If not; don't.

The trick to making money with investing is getting into better businesses. “And that involves all of these advantages of scale that you could consider momentum effects.”

A method for this is to “get ‘em while they're little.”

And ideally, you'd find a great business that has great management. Because great management is important.

But on average, betting on the quality of a business is better than betting on the quality of management. But, very rarely, you find some manager who you'd be wise to follow into even a mediocre business.

“So there are risks. Nothing is automatic and easy. But if you can find some fairly priced great company and buy it and sit, that tends to work out very, very well indeed — especially for an individual.”

Worldly Wisdom Updated: Q and A with Charlie

Q: What should a young person look for in a career?

“I have three basic rules. Meeting all three is nearly impossible, but you should try anyway:

- Don't sell anything you wouldn't buy yourself.
- Don't work for anyone you don't respect and admire.
- Work only with people you enjoy.

I have been incredibly fortunate in my life: with Warren I had all three.”

Q: What overall life advice do you have for young people?

"Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step-by-step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts. Slug it out one inch at a time, day-by-day, and at the end of the day — if you live long enough — like most people, you will get out of life what you deserve.

Life and its various passages can be hard, brutally hard. The three things I have found helpful in coping with its challenges are:

- Have low expectations.
- Have a sense of humor.
- Surround yourself with the love of friends and family.

Above all, live with change and adapt to it. If the world didn't change, I'd still have a twelve handicap."

Talk Three — A Lesson on Elementary, Worldly Wisdom, Revisited

Always keep learning.

"So if you want to be a good thinker, you must develop a mind that can jump the jurisdictional boundaries." — **be able to think across disciplines.**

"You don't have to know it all. Just take in the best big ideas from all disciplines. And it's not that hard to do."

So get the models in your head, and think it through forward and backward. What can go right? What can go wrong?

"Heavy ideology is one of the most extreme distorters of human cognition."

■ *"What a man wishes, that also will he believe." — Demosthenes*

If you want to ruin civilization, make systems in which people can easily cheat. Pass laws people could cheat. Because if there is no incentive not to (won't get caught, low risk), they will.

"When people get bad news, they hate the messenger".

It's important to be able to handle mistakes. Because you will make them. Many of them.

"You must have the confidence to override people with more credentials than you whose cognition is impaired by incentive-caused bias or some similar psychological force that is obviously present. But there are also cases where you have to recognize that you have no wisdom to add-and that your best course is to trust some expert." — know what you know, and what you don't know.

Don't be afraid to say that you don't know something or that you don't have any special competence in a specific area.

"Good literature makes the read reach a little for understanding. If you've reached for it, the idea's pounded in better."

"What works best in most cases is to appeal to a man's interest."

Talk Three Revisited

"The man who doesn't read good books has no advantage over the man who can't read them." — Mark Twain

Talk Four — Practical Thought About Practical Thought?

Five notions:

1. "it is usually best to simplify problems by deciding big 'no-brainer' questions first"
2. (mimics Galileo's conclusion that...) "scientific reality is often revealed only by math as if math was the language of God. ...Without numerical fluency, in the part of list most of us inhabit, you are like a one-legged man in an ass-kicking contest."
3. Think problems through forwards and backwards. Carl Jacobi: "Invert, always invert."

4. "the best and most practical wisdom is elementary academic wisdom. But there is one extremely important qualification: You must think in a multidisciplinary manner. You must routinely use all the easy-to-learn concepts from the freshman course in every basic subject."
 1. Do not rely on the thinking of others.
5. "really big effects, lollapalooza effects, will often come only from large combinations of factors."

A few of the mentioned models:

- Pavlovian conditioning (classical conditioning) — consider association.
- Social proof — "monkey see, monkey do". We do as others do.
- Operant conditioning — Stimuli & reward cause behavior.
- Autocatalytic reaction — a reaction is autocatalytic if one of its products is also a catalyst for the same or a coupled reaction.
- Inverting

Wisdom from Sir Isaac Newton

"Tact is the art of making a point without making an enemy."

"If I have ever made any valuable discoveries, it has been due more to patient attention, than to any other talent."

"No great discovery was ever made without a bold guess."

"We build too many walls and not enough bridges."

"If I am anything, which I highly doubt, I have made myself so by hard work."

"If I have done the public any service, it is due to my patient thought."

"If I have seen farther than others, it is because I was standing on the shoulders of giants."

Einstein's four causes of achievement

- Self-criticism
- Curiosity
- Concentration

- Perseverance

"I know quite certainly that I myself have no special talent; curiosity, obsession and dogged endurance, combined with self-criticism, have brought me to my ideas." — Albert Einstein

Talk Five — The Need for More Multidisciplinary Skills from Professionals: Educational Implications

"There is an old two-part rule that often works wonders in business, science, and elsewhere: (1) Take a simple, basic idea and (2) take it very seriously."

Charlie's Checklists

The Two-Track Analysis

- "What are the factors that really govern the interests involved, rationally considered?"
- "What are the subconscious influences, where the brain at a subconscious level is automatically forming conclusions?"

Investing and Decision Making Checklist

See earlier under 'The Checklist'.

Ultra-Simple, General Problem-Solving Notions

- "Decide the big 'no-brainer' questions first."
- "Apply numerical fluency."
- "Invert (think the problem through in reverse)."
- "Apply elementary multidisciplinary wisdom, never relying entirely upon others."
- "Watch for combinations of factors — the Lollapalooza effect."

Psychology-Based Tendencies

These are his Twenty-Five Standard Causes of Human Misjudgment which appear later in the book.

Talk Seven — Breakfast Meeting of the Philanthropy Roundtable

"I also think that one should recognize reality even when one doesn't like it, indeed, especially when one doesn't like it."

Talk Nine — Academic Economics: Strengths and Faults after Considering Interdisciplinary Needs

"If you would persuade, appeal to interest and not to reason." (even when your intentions are lofty)

"Better roughly right than precisely wrong."

"No matter how smart you are, there are smart people out there who can fool you if they really want to. So, be sure you can trust the smart people you work with."

— Ben Graham

Talk Ten — USC Gould School of Law Commencement Address

"... the safest way to try to get what you want is to try to deserve what you want. ... You want to deliver to the world what you would buy if you were on the other end."

"there's no love that's so right as admiration-based love, and such love should include the instructive dead."

"The acquisition of wisdom is a moral duty." (Confucius). But the corollary to that idea is that it requires that you're hooked on lifetime learning. If not, you won't do very well. "You are not going to get very far in life based on what you already know. You're going to advance in life by what you learn after you leave here."

"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent. But they are learning machines. **They go to bed every night a little wiser than they were that morning.** And boy, does that habit help, particularly when you have a long run ahead of you."

Munger stresses that his multi-disciplinary approach to life has helped him immensely. Get those mental models inside your head (about 100 of them). Practice them consistently and repeatedly.

You should know both history and the big ideas from the big disciplines.

Inversion can help you solve problems that you otherwise couldn't handle. Tim Ferriss, too, likes to ask "What if I did the opposite?".

"I feel that I'm not entitled to have an opinion unless I can state the arguments against my position better than the people who are in opposition."

Self-pity does not help. It's counterproductive.

Get rid of self-serving bias. "Thinking that what's good for you is good for the wider civilization, and rationalizing foolish or evil conduct, based on your subconscious tendency to serve yourself, is a terrible way to think." But you still have to let others have it. Because most won't be able to remove it.

Avoid being subjected to perverse incentives. They're powerful as controllers of human cognition and behavior.

"You particularly want to avoid working directly under somebody you don't admire and don't want to be like."

You want to find those (and be one) who have real knowledge. Not just reciting what others found out.

Some wisdom from Epictetus:

- "He is a wise man who does not grieve for the things which he has not, but rejoices for those which he has."
- "If you want to improve, be content to be thought foolish and stupid."
- "It is impossible to begin to learn that which one thinks one already knows."
- "It's not what happens to you, but how you react to it that matters."

- “Make the best use of what is in your power, and take the rest as it happens.”
- “No man is free who is not a master of himself.”
- “Only the educated are free.”
- “People are not disturbed by things, but by the view they take of them.”
- “The key is to keep company only with people who uplift you, whose presence calls forth your best.”
- “Wealth consists not in having great possessions, but in having few wants.”

“Another thing to cope with is that life is very likely to provide terrible blows, unfair blows. Some people recover, and others don’t. And there I think the attitude of Epictetus helps guide one to the right reaction. He thought that every mischance in life, however bad, created an opportunity to behave well. He believed every mischance provided an opportunity to learn something useful. And one’s duty was not to be immersed in self-pity, but to utilize each terrible blow in a constructive fashion.”

It’s good to be able to anticipate trouble. Then you can be prepared for it. (The Stoics have negative visualization — imagining that things do go wrong)

Talk Eleven — The Psychology of Human Misjudgment

Charlie praises [Influence by Robert Cialdini](#).

Reward and Punishment — Superresponse Tendency

Incentives and disincentives are powerful for changing cognition and behavior.

“If you wish to persuade, appeal to interest and not to reason.” — Benjamin Franklin

General antidotes against incentive-caused bias:

1. especially fear professional advice when it is especially good for the advisor
2. learn and use the basic elements of your advisor’s trade as you deal with your advisor
3. double check, disbelieve, or replace much of what you’re told, to the degree that seems appropriate after objective thought.

Man will game any system which he can. So one must design the system accordingly.

"prompt rewards work best." (for conditioning)

Punishment works too. But is not as good as rewards.

Liking/Loving Tendency

"man will generally strive, lifelong, for the affection and approval of many people not related to him."

Tendency acts as a conditioning device that makes the liker or lover tend

1. "to ignore faults of, and comply with wishes of, the object of his affection"
2. "to favor people, products, and actions merely associated with the object of his affection"
3. "to distort other facts to facilitate love."

"For instance, a man who is so constructed that he loves admirable persons and ideas with a special intensity has a huge advantage in life."

Dislike/Hating Tendency

Tendency acts as a conditioning device that makes the disliker/hater tend to

1. "ignore virtues in the object of dislike"
2. "dislike people, products, and actions merely associated with the object of his dislike"
3. "distort other facts to facilitate hatred"

Doubt-Avoidance Tendency

"The brain of man is programmed with a tendency to quickly remove doubt by reaching some decision."

Inconsistency-Avoidance Tendency

“The brain of man conserves programming space by being reluctant to change, which is a form of inconsistency avoidance.”

Few of us succeed in eliminating bad habits. Most of us maintain habits — even when we know those to be bad.

“When Marley’s miserable ghost says, ‘I wear the chains I forged in life,’ he is talking about chains of habit that were too light to be felt before they became too strong to be broken.”

“The rare life that is wisely lived has in it many good habits maintained and many bad habits avoided or cured. And the great rule that helps here is again from Franklin’s *Poor Richard’s Almanack*: ‘An ounce of prevention is worth a pound of cure’”.

Man has a hard time taking in new ideas that conflict with old ideas. “And so, people tend to accumulate large mental holdings of fixed conclusions and attitudes that are not often reexamined or changed, even though there is plenty of good evidence that they are wrong.”

Curiosity Tendency

It’s good to be curious.

Kantian Fairness Tendency

We try to be fair to each other. Kant had his “categorical imperative”, which is some sort of golden rule that, if followed by all, it would make the surrounding human system work best for everybody. And we’ve come to adopt this — we are fair to others, and expect that others are fair to us.

Envy/Jealousy Tendency

It is human nature to be envious.

“It is not greed that drives the world, but envy.” (Buffett)

Reciprocation Tendency

We automatically reciprocate both favors and disfavor. (Great material about this in [Influence by Cialdini](#))

“The standard antidote to one’s overactive hostility is to train oneself to defer reaction. As my smart friend Tom Murphy so frequently says, ‘You can always tell the man off tomorrow, if it is such a good idea.’”

Salesmen do you small favors (bring coffee, etc) in order to make you reciprocate. You’ll be more likely to part with something of your own — money.

If you want to request something from someone, first ask a big favor. Then when they inevitably reject, follow up with your original (smaller) ask. They’re much more likely to agree then.

Influence-From-Mere-Association Tendency

This is prominent in advertising. You see <product> along with something positive such that you’ll think <product> is something positive.

If you do something stupid, but get lucky, and you try it again, it’s still stupid. You’ll be more likely to do it again because you associate it with the reward of success. A great example is playing the lottery or at a casino. It’s stupid — the odds are too much against you. Win once and you’re in danger.

Antidote to being made such a patsy by past successes

- “carefully examine each past success, looking for accidental, non-causative factors associated with such success that will tend to mislead as one appraises odds implicit in a proposed new undertaking”
- “look for dangerous aspects of the new undertaking that were not present when past success occurred.”

Be careful of the “Persian Messenger Syndrome”. They killed the messenger bearing bad news.

It still occurs today; only, you (probably) won’t get killed. If you bring bad news, people will associate you with bad news.

Simple, Pain-Avoiding Psychological Denial

We use denial to cope with pain. Try to avoid this — you won't end up anywhere good.

Excessive Self-Regard Tendency

Man “mostly misappraises himself on the high side, like the ninety percent of Swedish drivers that judge themselves to be above average.”

We are overinfluenced by face-to-face impressions.

Even the worst criminals don't regard themselves as all that bad. They come to believe either

1. “that they didn't commit their crimes” or
2. “that, considering the pressures and disadvantages of their lives, it is understandable and forgivable that they behaved as they did and became what they became.”

We make excuses for our poor performance instead of providing the fix.

To avoid this, we should face two simple facts:

1. “fixable but unfixed bad performance is bad character and tends to create more of itself, causing more damage to the excuse giver with each tolerated instance” and
2. “in demanding places, like athletic teams and General Electric, you are almost sure to be discarded in due course if you keep giving excuses instead of behaving as you should.”

Force yourself to be more objective when viewing yourself. It's hard, but better.

Overoptimism Tendency

“What a man wishes, that also will he believe.” — Demosthenes

Deprivation-Superreaction Tendency

We hate losing 10\$ more than getting 10\$. Loss hurts more than gains helps.

Social-Proof Tendency

As said earlier in the book: “monkey see, monkey do”. We automatically think and do what we observe to be thought and done around us.

Contrast-Misreaction Tendency

“Because the nervous system of man does not naturally measure in absolute scientific units, it must instead rely on something simpler. The eyes have a solution that limits their programming needs: the contrast in what is seen is registered. And as in sight, so does it go, largely, in the other senses. Moreover, as perception goes, so goes cognition. The result is man’s Contrast-Misreaction Tendency.”

For example, buying something expensive just because it is cheaper than the other (expensive) options. This is a typical tendency for salesmen to exploit.

Another example: a salesman deliberately showing a customer three awful houses at ridiculously high prices. Then a merely bad house at a price only moderately too high. Easy sale.

Artificial sales, too. Jacking up prices such that your ‘discount’ (original price) seems incredibly low. What a deal.

Stress-Influence Tendency

Sudden stress causes a rush of adrenaline, prompting faster and more extreme reaction.

Availability-Misweighing Tendency

“Man’s imperfect, limited-capacity brain easily drifts into working with what’s easily available to it. And the brain can’t use what it can’t remember or what it is blocked from recognizing because it is heavily influenced by one or more psychological tendencies bearing strongly on it,”

Main antidote is using checklists.

“The great algorithm to remember in dealing with this tendency is simple: An idea or a fact is not worth more merely because it is easily available to you.”

Use-It-or-Lose-It Tendency

Skills are there as long as you continually practice them. The same goes for almost anything in life. Knowledge, relationships, muscle, etc.

“Throughout his life, a wise man engages in practice of all his useful, rarely used skills, many of them outside his discipline, as a sort of duty to his better self. If he reduces the number of skills he practices and, therefore, the number of skills he retains, he will naturally drift into error from man with a hammer tendency. His learning capacity will also shrink as he creates gaps in the latticework of theory he needs as a framework for understanding new experience. It is also essential for a thinking man to assemble his skills into a checklist that he routinely uses. Any other mode of operation will cause him to miss much that is important.”

You can maintain only with daily practice.

Drug-Misinfluence Tendency

Just don't.

Senescence-Misinfluence Tendency

When you age, you deteriorate. That's the nature of things.

“Continuous thinking and learning, done with joy, can somewhat help delay what is inevitable.”

Authority-Misinfluency Tendency

Men follow leaders. Only few men lead. But the problem is when the leader is wrong, or when the leader's ideas don't get through properly and are misunderstood.

Twaddle Tendency

“Man, as a social animal who has the gift of language, is born to prattle and to pour out twaddle that does much damage when serious work is being attempted. Some people produce copious amounts of twaddle and others very little.”

Reason-Respecting Tendency

When given a reason for something (even if it does not make sense), we're likely to accept it. For example, when asking someone for a favor, you are much more likely to have them comply if you give them a reason.

Lollapalooza Tendency — The Tendency to Get Extreme Consequences from Confluences of Psychological Tendencies Acting in Favor of a Particular Outcome

Charlie Munger's Recommended Books

- Deep Simplicity: Bringing Order to Chaos and Complexity — John Gribbin
- F.I.A.S.C.O.: The Inside Story of a Wall Street Trader — Frank Partnoy
- Ice Age — John & Mary Gribbin
- How the Scots Invented the Modern World: The True Story of How Western Europe's Poorest Nation Created Our World & Everything in It — Arthur Herman
- Models of My Life — Herbert. A. Simon
- A Matter of Degrees: What Temperature Reveals About the Past and Future of Our Species, Planet, and Universe — Gino Segre
- Andrew Carnegie — Joseph Frazier Wall
- Guns, Germs, and Steel — Jared M. Diamond
- The Third Chimpanzee: The Evolution and Future of the Human Animal — Jared M. Diamond
- Influence: The Psychology of Persuasion — Robert B. Cialdini
- The Autobiography of Benjamin Franklin — Benjamin Franklin
- Living Within Limits: Ecology, Economics, and Population Taboos — Garrett Hardin
- The Selfish Gene — Richard Dawkins
- Titan: The Life of John D. Rockefeller, Sr. — Ron Chernow
- The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor — David S. Landes
- The Warren Buffett Portfolio: Mastering the Power of the Focus Investment Strategy — Robert G. Hagstrom
- Genome: The Autobiography of a Species in 23 Chapters — Matt Ridley

- Getting to Yes: Negotiating Agreement Without Giving In — Roger Fisher, William Ury, and Bruce Patton
- Three Scientists and Their Gods: Looking for Meaning in an Age of Information — Robert Wright
- Only the Paranoid Survive — Andy Grove

And from the editor..

- Les Schwab: Pride in Performance — Les Schwab
- Men and Rubber: The Story of Business — Harvey S. Firestone
- Men to Match My Mountains: The Opening of the Far West — Irving Stone

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